

DOCUMENT RESUME

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S. 666, A Bill to Provide Special Retirement Benefits for Non-Indian Employees of the Bureau of Indian Affairs and the Indian Health Service. September 13, 1977. 6 pp.

Testimony before the Senate Committee on Governmental Affairs: Civil Service and General Services Subcommittee, by Clifford I. Gould, Deputy Director, Federal Personnel and Compensation Div.

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Under S. 666, non-Indian employees of the Bureau of Indian Affairs and the Indian Health Service would be eligible for special retirement benefits if they were not otherwise entitled to full benefits under regular retirement provisions. The special benefits would amount to 50% of high 3 years of annual pay after 20 years of service, 60% after 25 years, and 70% after 30 years, whereas the regular formula would provide 36.25%, 46.25%, and 56.25%, respectively. The bill is intended to relieve the impact of a 1974 Supreme Court decision which upheld the policy of providing Indian employees of these agencies with employment and promotional preferences. The special retirement provisions would allow non-Indian employees to retire early and thus release higher level positions for qualified Indian applicants. Employees retiring under these provisions would receive higher annuities than those retiring under regular provisions. An examination of a similar special retirement system showed that S. 666 was an expensive method of marginally reducing the age of retirement and that most employees choose not to retire at the earliest time. In order to encourage early retirement, the provisions should be similar to those for air traffic controllers which provide an economic incentive but do not permit greater benefits for longer service. (HTW)

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STATEMENT OF
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U.S. GENERAL ACCOUNTING OFFICE
BEFORE THE
SUBCOMMITTEE ON CIVIL SERVICE AND GENERAL SERVICES
OF THE COMMITTEE ON GOVERNMENTAL AFFAIRS
U.S. SENATE
ON

S. 666, A BILL TO PROVIDE SPECIAL RETIREMENT
BENEFITS FOR NON-INDIAN EMPLOYEES OF THE BUREAU
OF INDIAN AFFAIRS AND THE INDIAN HEALTH SERVICE

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

I AM PLEASED TO BE HERE TO PRESENT THE GENERAL ACCOUNTING OFFICE'S VIEWS ON S. 666, A BILL TO REVISE RETIREMENT BENEFITS FOR NON-INDIAN EMPLOYEES OF THE BUREAU OF INDIAN AFFAIRS AND THE INDIAN HEALTH SERVICE. MY STATEMENT, MR. CHAIRMAN, WILL GENERALLY BE A SUMMARIZATION OF THE CONTENTS OF THE COMPTROLLER GENERAL'S LETTER OF JULY 13, 1977, TO THE CHAIRMAN OF THE COMMITTEE ON GOVERNMENTAL AFFAIRS REGARDING THIS BILL.

THE SUBCOMMITTEE'S MEMBERS ARE UNDOUBTEDLY AWARE OF GAO'S DEEP CONCERN ABOUT THE CIVIL SERVICE AND OTHER FEDERAL RETIREMENT SYSTEMS. BEGINNING IN 1974, WE HAVE ISSUED A SERIES OF REPORTS COVERING A NUMBER OF ISSUES RELATED TO BASIC POLICIES, FINANCING, ADMINISTRATION, AND BENEFITS OF THE VARIOUS RETIREMENT PROGRAMS. IN THE LATEST REPORT, FOR EXAMPLE, ISSUED ON AUGUST 3, 1977, WE REPORTED THAT THE ACTUAL COST OF THE CIVIL

SERVICE SYSTEM IS ABOUT TWO AND ONE-HALF TIMES THE COST GENERALLY RECOGNIZED AND ALSO POINTED OUT THAT MANY OF THE DIFFERING AND INCONSISTENT PROVISIONS OF THE VARIOUS SYSTEMS ARE WITHOUT APPARENT EXPLANATION. OUR REPORTS HAVE CONSISTENTLY CALLED FOR THE ESTABLISHMENT OF AN OVERALL POLICY TO PROVIDE OBJECTIVES AND PRINCIPLES TO GUIDE RETIREMENT SYSTEM DEVELOPMENT AND IMPROVEMENT. THUS FAR, SUCH A POLICY HAS NOT BEEN ESTABLISHED. HOWEVER, WE WERE VERY PLEASED TO RECEIVE A REQUEST LAST YEAR FROM THREE HOUSE CHAIRMEN ASKING US TO STUDY THE DESIRABILITY OF RATIONALIZING AND INTEGRATING OVER 50 FEDERAL RETIREMENT PROGRAMS INTO ONE SYSTEM. THIS STUDY IS IN PROGRESS. IT AND OUR PREVIOUS WORK HAVE CONVINCED US OF THE IMPORTANCE OF GIVING SERIOUS CONSIDERATION TO NEED, DESIGN, EQUITY, AND THE COST OF ANY PROPOSED CHANGES OR IMPROVEMENTS TO THE RETIREMENT PROGRAMS, PARTICULARLY WHEN THE CHANGES APPLY ONLY TO SELECTED GROUPS.

UNDER S. 666, NON-INDIAN EMPLOYEES OF THE BUREAU OF INDIAN AFFAIRS AND THE INDIAN HEALTH SERVICE WHO HAVE BEEN CONTINUOUSLY EMPLOYED SINCE JUNE 14, 1974, WOULD BE ELIGIBLE FOR IMMEDIATE ANNUITIES IF THEY RETIRE BEFORE DECEMBER 31, 1989, AND, AT THE TIME OF RETIREMENT, HAVE COMPLETED AT LEAST 25 YEARS OF SERVICE OR HAVE BECOME AGE 50 AND COMPLETED 20 YEARS OF SERVICE. THEY WOULD RECEIVE ANNUITIES EQUAL TO 2.5 PERCENT OF THEIR "HIGH-3" AVERAGE ANNUAL PAY FOR EACH OF THE FIRST 20 YEARS OF SERVICE AND 2 PERCENT FOR EACH YEAR THEREAFTER. THE SPECIAL BENEFITS

WOULD BE AVAILABLE ONLY TO THOSE NON-INDIAN EMPLOYEES WHO ARE NOT OTHERWISE ENTITLED TO FULL RETIREMENT BENEFITS UNDER THE REGULAR PROVISIONS.

THE SPECIAL BENEFITS PROPOSED BY S. 666 ARE QUITE SUPERIOR TO THE BENEFITS PROVIDED TO MOST OTHER FEDERAL CIVILIAN EMPLOYEES. GENERALLY, EMPLOYEES UNDER THE CIVIL SERVICE SYSTEM ARE ELIGIBLE TO RETIRE AT AGE 55 WITH 30 YEARS OF SERVICE OR AT AGE 60 WITH 20 YEARS OF SERVICE. THEIR ANNUITIES ARE COMPUTED ON THE BASIS OF HIGH-3 SALARIES MULTIPLIED BY 1.5 PERCENT FOR EACH OF THE FIRST 5 YEARS OF SERVICE, 1.75 PERCENT FOR EACH OF THE NEXT 5 YEARS OF SERVICE, AND 2 PERCENT FOR EACH YEAR OF SERVICE THEREAFTER. IN THE CASE OF INVOLUNTARY SEPARATIONS, EMPLOYEES MAY RECEIVE IMMEDIATE ANNUITIES IF THEY ARE AGE 50 AND HAVE 20 YEARS OF SERVICE OR AT ANY AGE WITH 25 YEARS OF SERVICE, HOWEVER, THE ANNUITIES ARE CALCULATED UNDER THE REGULAR FORMULA AND ARE REDUCED BY 1/6 OF 1 PERCENT FOR EACH MONTH UNDER AGE 55.

IT IS OUR UNDERSTANDING THAT S. 666 IS INTENDED AS A MEANS OF RELIEVING THE IMPACT OF A 1974 SUPREME COURT DECISION WHICH REAFFIRMED AND UPHELD THE POLICY, AS ENUNCIATED BY THE CONGRESS IN PRIOR LEGISLATION, OF PROVIDING INDIAN EMPLOYEES OF THE BUREAU OF INDIAN AFFAIRS AND THE INDIAN HEALTH SERVICE WITH EMPLOYMENT AND PROMOTIONAL PREFERENCES. THE SPECIAL RETIREMENT PROVISIONS PROPOSED BY S. 666 ARE INTENDED TO REDRESS THE EFFECT OF THE DECISION ON NON-INDIAN EMPLOYEES BY ALLOWING THEM TO

RETIRE EARLY AND, THROUGH SUCH RETIREMENTS, TO RELEASE MORE MIDDLE AND HIGHER LEVEL POSITIONS FOR QUALIFIED INDIAN APPLICANTS.

WE DO NOT KNOW THE CURRENT EXTENT OF THE PROBLEM OR WHETHER EFFECTIVE MANAGEMENT ACTION IS BEING TAKEN TO IMPROVE THE CAREER PROSPECTS OF NON-INDIAN EMPLOYEES. IN GENERAL, WE BELIEVE THAT SUCH PROBLEMS SHOULD BE RESOLVED BY USING MANAGEMENT TOOLS SUCH AS EMPLOYEE RETRAINING AND/OR OUTPLACEMENT PROGRAMS RATHER THAN THROUGH THE COSTLY AND INEQUITABLE USE OF PREFERENTIAL BENEFITS UNDER THE RETIREMENT SYSTEM. HOWEVER, IF THE RETIREMENT SYSTEM IS USED TO REDRESS SUCH PROBLEMS, THE SPECIAL BENEFITS MUST BE CAREFULLY DESIGNED SO AS TO ACCOMPLISH THE PERSONNEL MANAGEMENT OBJECTIVE AT THE LEAST COST.

THE SPECIAL RETIREMENT BENEFITS PROPOSED BY THE BILL WOULD AMOUNT TO 50 PERCENT OF HIGH-3 AFTER 20 YEARS OF SERVICE, 60 PERCENT AFTER 25 YEARS, AND 70 PERCENT AFTER 30 YEARS, WHEREAS THE REGULAR FORMULA WOULD PROVIDE 36.25 PERCENT, 46.25 PERCENT AND 56.25 PERCENT, RESPECTIVELY. THUS, EMPLOYEES WHO WOULD NOT OTHERWISE QUALIFY FOR RETIREMENT UNDER THE REGULAR AGE AND SERVICE REQUIREMENTS WOULD RECEIVE HIGHER ANNUITIES UNDER S. 666 THAN OTHER EMPLOYEES RETIRING UNDER THE REGULAR PROVISIONS, INCLUDING THOSE NON-INDIAN EMPLOYEES AT THE BUREAU OF INDIAN AFFAIRS AND THE INDIAN HEALTH SERVICE WHO QUALIFY UNDER THE REGULAR PROVISIONS.

FURTHER, BASED ON THE RESULTS OF OUR PREVIOUS WORK ON SPECIAL RETIREMENT BENEFITS THAT EXIST UNDER THE CIVIL SERVICE RETIREMENT SYSTEM, WE BELIEVE THAT IT IS QUESTIONABLE WHETHER THE ENACTMENT OF S. 666 WOULD ACHIEVE ITS INTENDED PURPOSE.

THE RETIREMENT BENEFITS PROPOSED BY S. 666 ARE SIMILAR TO THE SPECIAL BENEFITS CURRENTLY AVAILABLE UNDER THE CIVIL SERVICE SYSTEM TO FEDERAL LAW ENFORCEMENT AND FIREFIGHTER PERSONNEL. THESE EMPLOYEES MAY RETIRE AT AGE 50 WITH 20 YEARS OF SERVICE UNDER A BENEFIT FORMULA IDENTICAL TO THAT CONTAINED IN S. 666. THE PURPOSE OF THESE BENEFITS IS SIMILAR TO THE PURPOSE OF S. 666--TO ENCOURAGE THE EARLY RETIREMENT OF THE COVERED EMPLOYEES. IN A FEBRUARY 1977 REPORT WE EXAMINED THIS EARLY RETIREMENT POLICY AND FOUND IT TO BE AN EXPENSIVE METHOD OF MARGINALLY REDUCING THE AGE OF RETIREMENT. BECAUSE COVERED EMPLOYEES ARE NOT REQUIRED TO RETIRE WHEN ELIGIBLE IN ORDER TO RECEIVE THE HIGHER BENEFITS, MOST OF THEM CHOOSE NOT TO RETIRE WHEN FIRST ELIGIBLE AND, AS A RESULT, THE AVERAGE AGE OF RETIRING LAW ENFORCEMENT AND FIREFIGHTER PERSONNEL IS ONLY FROM 1 TO 3 YEARS LESS THAN THE OVERALL CIVIL SERVICE AVERAGE. IN OUR OPINION, THE SAME END RESULT COULD OCCUR FOR THE EMPLOYEES AFFECTED BY S. 666, WHEREBY THEY WOULD NOT RETIRE MUCH, IF ANY, SOONER THAN OTHERWISE, AND THEIR BENEFITS WOULD BE CONSIDERABLY MORE THAN THOSE RECEIVED BY OTHER EMPLOYEES.

IF THE RETIREMENT SYSTEM IS TO BE CHANGED, WE BELIEVE THE OBJECTIVES OF S. 666 COULD BETTER BE SERVED THROUGH ADOPTION OF PROVISIONS WHICH WILL ENCOURAGE, RATHER THAN DISCOURAGE, EARLY RETIREMENT. FOR EXAMPLE, FEDERAL AIR TRAFFIC CONTROLLERS ARE ELIGIBLE TO RETIRE ON AN IMMEDIATE ANNUITY AFTER 25 YEARS OF SERVICE OR UPON REACHING AGE 50 AFTER 20 YEARS OF SERVICE IN THE SAME MANNER AS THAT PROPOSED BY S. 666. HOWEVER, UNLIKE THE BENEFIT FORMULA UNDER S. 666, CONTROLLERS' ANNUITIES ARE NOT COMPUTED UNDER A MORE GENEROUS FORMULA. INSTEAD, THEIR ANNUITIES ARE EQUAL TO THE HIGHER OF (1) THAT PRODUCED BY THE REGULAR CIVIL SERVICE FORMULA OR (2) 50 PERCENT OF HIGH-3 AVERAGE PAY. THE SPECIAL RETIREMENT PROVISIONS FOR CONTROLLERS PROVIDE AN ECONOMIC INCENTIVE TO RETIRE EARLY, BUT THEY DO NOT PERMIT CONTROLLERS CHOOSING TO SERVE LONGER TO RECEIVE GREATER RETIREMENT BENEFITS THAN OTHER CIVIL SERVICE EMPLOYEES.

THIS CONCLUDES MY STATEMENT, MR. CHAIRMAN, AND I WILL BE PLEASED TO ANSWER QUESTIONS.